

CITY OF NEW MARKET, TENNESSEE

FINANCIAL STATEMENTS

JUNE 30, 2016

CITY OF NEW MARKET, TENNESSEE
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June 30, 2016

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CITY OF NEW MARKET, TENNESSEE
CITY OFFICIALS
June 30, 2016

MAYOR:	Charles Guinn
ALDERMEN:	Maurice Solomon Frank Solomon Carolyn Williams Ross Cunningham
RECORDER:	Gloria Larrance
CITY ATTORNEY:	Doug Drinnon
CITY COURT CLERK:	Diana Elkins Katlin Maples
CITY JUDGE:	Gene Rogers
POLICE CHIEF:	Raymond Raper

DAVID M. ELLIS

Certified Public Accountant

*Member, American Institute of
Certified Public Accountants*

*Member, Tennessee Society of
Certified Public Accountants*

INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and Aldermen
City of New Market
New Market, Tennessee

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities and each major fund of the City of New Market, Tennessee, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City of New Market, Tennessee's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the City of New Market, Tennessee, as of June 30, 2016, and the respective changes in financial position, and where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

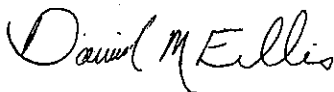
My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of New Market, Tennessee's basic financial statements. The supplementary information on page 1 and on page 27 is presented for purposes of additional analysis and is not a required part of basic financial statements.

The supplementary information on page 1 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I do not express an opinion or provide any assurance on it.

The supplementary information on page 27 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated May 10, 2018 on my consideration of the City of New Market, Tennessee's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of New Market, Tennessee's internal control over financial reporting and compliance.



David M. Ellis, CPA
Greeneville, Tennessee
May 10, 2018

CITY OF NEW MARKET, TENNESSEE
MANAGEMENT'S DISCUSSION & ANALYSIS
For the Year Ended, June 30, 2016

As management of the City of New Market, Tennessee (i.e., the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the year ended June 30, 2016. We encourage readers to consider this information in conjunction with the basic financial statements, the notes to the financial statements and other supplementary information which has been provided.

Financial Highlights

Key financial highlights for the year ended June 30, 2016 are as follows:

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$243,054.
- The City's total net position increased \$4,456 during the current year.
- As of June 30, 2016, the City's General Fund reported a fund balance of \$(52,369) which was a \$13,394 increase over the prior year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements 2) fund financial statements and 3) notes to the basic financial statements. The report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner similar to private-sector business.

The Statement of Net Position presents information on all of the City's assets and liabilities, with the difference between these reported as net position. Over time, increases or decreases in net position serves as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net positions changed during the most recent year. All changes in net positions are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities). The governmental activities of the City include general government, fire, police, state street aid, recreation, and the drug fund operations.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related requirements. The City uses several funds to account for a range of financial transactions. The City's major governmental fund is the General Fund.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the year. Such information may be useful in evaluating the City's near-term financial requirements.

Because the focus of governmental funds is narrower than that of government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. Both the governmental funds balance sheet and the governmental funds statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and activities.

The City maintains three governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund which is always considered to be a major fund. Data for the other remaining funds, which are the State Street Aid Fund and Drug Fund, are presented in a single presentation. The City adopts an annual budget for its governmental funds and budgetary comparison information is located in the basic financial statements or in supplementary information.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required & Other Supplementary Information

In addition to the basic financial statements and accompanying notes, additional supplementary information can be found in sections of this report.

Government-Wide Financial Analysis

The City presents its financial statements under the reporting model required by the Governmental Accounting Standards Board Statement No. 34 (GASB 34), Basic Financial Statements-and Management's Discussion and Analysis (MD & A) - for state and local governments.

As noted earlier, net position changes over time and serves as a useful indicator of the City's financial position. In the case of the City, its overall net position increased \$4,456 in the current year.

The largest portion of the City's net position reflects its investment in capital assets (e.g., land, buildings, vehicles and equipment). The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

The restricted section of the City's net position represents resources that are subject to external restrictions on how they may be used. The unrestricted is a negative number which lowers the amount that is actually available for restricted assets. This would make it difficult for the government to meet ongoing obligations to its citizens and creditors.

At the end of the current fiscal year, the City is not able to report positive balances in all three categories of net position.

The City of New Market's net position and changes in net position are presented below:

	Governmental Activities		
	2016	2015	Change
Assets			
Current & Other Assets	\$ 172,559	\$ 138,083	\$ 34,476
Capital Assets (net)	289,599	324,670	(35,071)
Total Assets	462,158	462,753	(595)
Liabilities			
Current Liabilities	5,128	7,569	(2,441)
Other Liabilities	213,976	216,585	(2,609)
Total Liabilities	219,104	224,154	(5,050)
Net Position			
Investment in Capital Assets	289,599	324,670	(35,071)
Restricted	219,377	194,882	24,495
Unrestricted	(265,922)	(280,954)	15,032
Total Net Position	\$ 243,054	\$ 238,598	\$ 4,456

The table below provides a summary of the City's changes in net position for 2016 and 2015:

	Governmental		
	2016	2015	Change
Revenue			
Charges for Services	\$ 99,739	\$ 96,561	\$ 3,178
Operating Grants/Contributions	39,391	39,778	(387)
In-lieu of Tax	15,755	15,461	294
Wholesale Beer Tax	15,900	14,858	1,042
Local Sales Tax	186,754	173,185	13,569
Income Tax	16,086	12,730	3,356
Other Taxes	13,881	131	13,750
Interest Earned	7	13	(6)
Miscellaneous	7,196	22,278	(15,082)
Total Revenue	394,709	374,995	19,714
Expenses			
General Government	101,054	131,326	(30,272)
Public Safety - Police/Fire	153,172	160,549	(7,377)
Drug Fund Operations	5,180	-	5,180
Public Works	78,500	65,619	12,881
State Street Aid	22,435	21,286	1,149
City Court	24,783	25,870	(1,087)
Recreation	5,129	4,456	673
Total Expenses	390,253	409,106	(18,853)
Change in Net Position	4,456	(34,111)	38,567
Beginning Net Position	238,598	272,709	(34,111)
Ending Net Position	\$ 243,054	\$ 238,598	4,456

General Government

Includes the executive, legislative and judicial branches of the City. Also included are the municipal building operations and its maintenance.

Public Safety

Includes all activities of the police department and hydrant upkeep. The public safety fund also provides funding to the New Market Volunteer Fire Department.

Drug Enforcement

Includes activities to eradicate illegal drug use.

Public Works

Includes the operation and maintenance of streets, sidewalks, alleys, and roads.

State Street Aid

Includes using the gas taxes that are restricted for the maintenance of the City's roads, sidewalks and streets.

Recreation

Includes activities to maintain the parks.

Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City's governmental funds is to provide information on the near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balances may serve as a useful measure of a government's net resources available for spending in the next fiscal year.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$167,431. In the governmental funds revenues and other sources totaled \$394,709 while expenditures totaled \$357,791 resulting in a \$36,918 increase to fund balance.

General Fund Budgetary Highlights

Actual revenues were under final budgeted revenues by \$17,118 and actual expenditures were under final budgeted expenditures by \$30,512.

Capital Assets

The City's investment in capital assets for its governmental activities as of June 30, 2016, totaled \$289,599 (net of accumulated depreciation). The investment in capital assets includes land, buildings, machinery and equipment, and vehicles. A summary of the capital assets are as follows:

	Governmental		Change
	<u>2016</u>	<u>2015</u>	
Capital Assets			
Land	\$ 69,474	\$ 69,474	\$ -
Buildings and Improvements	93,840	119,226	(25,386)
Machinery and Equipment	102,726	83,665	19,061
Vehicles	23,559	52,305	(28,746)
Total Capital Assets (net)	<u>\$ 289,599</u>	<u>\$ 324,670</u>	<u>\$ (35,071)</u>

General Fund Budget

The budget for the City is prepared according to the laws of Tennessee and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. No budget amendments were enacted for the fiscal 2015-2016 year.

Debt Administration

The City has a debt to the Internal Revenue Service for past unpaid payroll taxes dating back to 2010 when the former city recorder failed to remit payroll taxes when due and payable. A payment plan has been established at an amount of \$1,000 per month. As of June 30, 2016, \$213,975 remains on this debt.

Contacting the City's Financial Management

This report is designed to provide those interested with a general overview of the City's finances. If you have questions about this report or need additional information, contact the City Recorder at the City of New Market, P.O. Box 300, New Market, Tennessee 37820.

CITY OF NEW MARKET, TENNESSEE
STATEMENT OF NET POSITION
JUNE 30, 2016

	Governmental Activities	
ASSETS		
Current Assets		
Cash & Cash Equivalents	\$ 105,973	
Receivables: Due from other governmental units	<u>53,867</u>	
Total Current Assets		\$ 159,840
Restricted Assets		
Cash & Cash Equivalents	6,045	
Due From Other Governmental Units	<u>6,674</u>	
Total Restricted Assets		12,719
Capital Assets Not Being Depreciated		
Land	<u>69,474</u>	
Total Capital Assets Not Being Depreciated		69,474
Capital Assets Net of Depreciation		
Buildings	93,840	
Machinery and Equipment	102,726	
Vehicles	<u>23,559</u>	
Total Capital Assets Net of Depreciation		<u>220,125</u>
TOTAL ASSETS		<u><u>462,158</u></u>
LIABILITIES		
Current Liabilities		
Accounts Payable	3,179	
Accrued Liabilities	<u>1,949</u>	
Total Current Liabilities		5,128
Long Term Liabilities		
Payroll Taxes	<u>213,976</u>	
Total Long Term Liabilities		<u>213,976</u>
TOTAL LIABILITIES		<u><u>219,104</u></u>
NET POSITION		
Investment in Capital Assets	289,599	
Restricted		
Drug Enforcement Fund	6,045	
State Street Aid	213,332	
Unrestricted	<u>(265,922)</u>	
TOTAL NET POSITION		<u><u>\$ 243,054</u></u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF NEW MARKET, TENNESSEE
STATEMENT OF ACTIVITIES
For the Year ended June 30, 2016

Functions/Programs	Expenses	PROGRAM REVENUES			Expenses/Revenues Changes in Net Position Governmental Activities
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	
Primary Government					
Governmental Activities:					
General Government	\$ 101,054	\$ 19,180	\$ -	\$ -	\$ (81,874)
Public Safety-Police/Fire	153,172	74,514	-	-	(78,658)
Public Works	78,500	-	-	-	(78,500)
Cultural and Recreational	5,129	-	-	-	(5,129)
State Street Aid	22,435	-	39,391	-	16,956
Drug Enforcement	5,180	6,045	-	-	865
City Court	24,783	-	-	-	(24,783)
Total Governmental Activities	390,253	99,739	39,391	-	(251,123)
					(251,123)
Change in Net Position					
General Revenues					
Sales Tax					186,754
Beer Tax					15,900
Income Tax					16,086
TVA Replacement Tax					15,755
Telecommunications Sales Tax					113
Cable Franchise Fee					13,768
Interest					7
Miscellaneous					7,196
Total General Revenues					255,579
Increase (Decrease) in Net Position					4,456
Net Position-Beginning					238,598
Net Position-Ending					<u>\$ 243,054</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF NEW MARKET, TENNESSEE
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2016

	General Fund	State Street Aid	Drug Fund	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 105,973	\$ -	\$ -	\$ 105,973
Receivables:				
Due From Other Governmental Units	53,867	-	-	53,867
Restricted Assets:				
Cash and Cash Equivalents	-		6,045	6,045
Due From Other Funds		206,658		
Due From Other Governmental Funds	-	6,674	-	6,674
Total Assets	\$ 159,840	\$ 213,332	\$ 6,045	\$ 172,559
LIABILITIES				
Accounts Payable	3,179	-	-	3,179
Accrued Liabilities	1,949	-	-	1,949
Due to other funds	206,658	-	-	206,658
Total Liabilities	211,786	-	-	5,128
FUND BALANCES				
Non-spendable	-	-	-	-
Committed	-	-	-	-
Assigned	-	-	-	-
Restricted	-	213,332	6,045	219,377
Unassigned	(51,946)	-	-	(51,946)
Total Fund Balances	(51,946)	213,332	6,045	167,431
Total Liabilities and Fund Balances	\$ 159,840	\$ 213,332	\$ 6,045	\$ 172,559

Amounts reported for governmental activities in the statement of net position are different because:

Total Fund Balances - Governmental Funds	\$ 167,431
Long-term liabilities, including payroll taxes payable are not due and payable in the current period and therefore are not recorded in the funds.	(213,976)
Capital assets used in governmental activities of \$746,956 net of accumulated depreciation of \$457,356 are not current financial resources and, therefore, are not reported in the Governmental Fund.	289,599
Net Position of Governmental Activities	\$ 243,054

The accompanying notes to financial statements are an integral part of this statement.

CITY OF NEW MARKET, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES, & CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2016

	General Fund	State Street Aid	Drug Fund	Total Governmental Funds
REVENUES				
Local taxes	\$ 94,104	\$ -	\$ -	\$ 94,104
Intergovernmental Revenue	162,397	36,677	-	199,074
Fines	74,514	-	-	74,514
Interest	7	-	-	7
Miscellaneous Revenue	7,197	-	-	7,197
Cable TV Franchise Tax	13,768	-	-	13,768
Drug Fund	-	-	6,045	6,045
Total Revenues	351,987	36,677	6,045	394,709
EXPENDITURES				
General Government	99,104	-	-	99,104
Public Safety-Police/Fire	137,040	-	-	137,040
Public Works	76,045	-	-	76,045
Cultural and Recreational	1,622	-	-	1,622
State Street Aid	-	14,018	-	14,018
City Court	24,782	-	-	24,782
Drug Fund	-	-	5,180	5,180
Total Expenditures	338,593	14,018	5,180	357,791
Net Change in Fund Balances	13,394	22,659	865	36,918
Fund Balances - Beginning	(65,763)	190,673	5,603	130,513
Fund Balances - Ending	\$ (52,369)	\$ 213,332	\$ 6,468	\$ 167,431

Amounts reported for governmental activities in the statement of net position are different because:

Net Change in Fund Balances \$ 36,918

Repayment of long-term liabilities, including payroll taxes payable are expenditures in the governmental funds, but the repayments reduce long-term liabilities in the statement of net position. 2,609

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lives as depreciation expense. This is the amount by which capital outlays (\$0) exceeds depreciation expense (\$35,071) in the period. (35,071)

Change in net position of governmental activities \$ 4,456

The accompanying notes to financial statements are an integral part of this statement.

CITY OF NEW MARKET, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES, & CHANGES IN FUND BALANCE
- BUDGET & ACTUAL -
GENERAL FUND
For the Year Ended June 30, 2016

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget - Positive
REVENUE				
Taxes				
Local Option Sales Tax	\$ 75,000	\$ 75,000	\$ 78,855	\$ 3,855
Wholesale Beer Tax	14,100	14,100	15,249	1,149
Total Taxes	89,100	89,100	94,104	5,004
Intergovernmental Revenue				
State Sales Tax	105,000	105,000	107,899	2,899
State Income Tax	18,000	18,000	16,086	(1,914)
State Beer Tax	650	650	651	1
State Street Aid	3,000	3,000	2,714	(286)
TVA in Lieu	11,800	11,800	15,755	3,955
State Pay Supplement	2,400	2,400	-	(2,400)
Telecommunication Tax	150	150	113	(37)
State Mowing Contract	24,000	24,000	19,180	(4,820)
Total Intergovernmental Revenue	165,000	165,000	162,398	(2,602)
Fines & Forfeitures				
City Court Fines	85,000	85,000	69,770	(15,230)
Session Court Fines	5,000	5,000	4,745	(255)
Total Fines & Forfeitures	90,000	90,000	74,515	(15,485)
Other Revenue				
Cable TV Franchise Tax	11,000	11,000	13,768	2,768
Other Revenue	14,000	14,000	7,197	(6,803)
Total Other Revenue	25,000	25,000	20,965	(4,035)
TOTAL REVENUES	\$ 369,100	\$ 369,100	\$ 351,982	\$ (17,118)
EXPENDITURES				
General Government				
Mayor/Council Wages	\$ 14,650	\$ 14,650	\$ 14,607	\$ 43
Recorder's Salary	15,000	15,000	10,042	4,958
Payroll Taxes	30,000	30,000	25,548	4,452
Election Expenses	1,000	1,000	-	1,000
Office Supplies	2,500	2,500	1,255	1,245
Attorney Fees	4,000	4,000	5,350	(1,350)
Building Department	7,000	7,000	322	6,678
Senior Citizens	3,700	3,700	3,064	636
Utilities	17,000	17,000	11,382	5,618
Audit Fees	11,000	11,000	-	11,000
Insurance and Bonds	22,500	22,500	23,737	(1,237)
Building Repairs and Maintenance	2,900	2,900	2,248	652
Publications and Dues	1,000	1,000	1,350	(350)
Other Expenses	3,600	3,600	200	3,400
Total General Government	135,850	135,850	99,105	36,745

The accompanying notes to financial statements are an integral part of this statement.

CITY OF NEW MARKET, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES, & CHANGES IN FUND BALANCE
- BUDGET & ACTUAL -
GENERAL FUND
For the Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with Final Budget - Positive
	Original	Final		
Public Safety - Police				
Salaries/Wages	110,000	110,000	106,421	3,579
Equipment Expense	3,500	3,500	3,621	(121)
Uniforms	1,500	1,500	390	1,110
Supplies	1,000	1,000	1,233	(233)
Telephone/Telecommunications	3,500	3,500	2,155	1,345
Vehicle Fuel	8,500	8,500	6,556	1,944
Other Expenses	1,200	1,200	2,624	(1,424)
Total Public Safety - Police	129,200	129,200	123,000	6,200
Public Safety - Fire				
Fire Hydrant Expense	1,040	1,040	1,040	-
Fire Department Contribution	13,000	13,000	13,000	-
Total Public Safety - Fire	14,040	14,040	14,040	-
City Court				
Judge's Salary	6,000	6,000	5,500	500
Court Clerk's Salary	10,000	10,000	9,900	100
Mileage Reimbursement	210	210	-	210
Litigation Taxes	7,500	7,500	5,025	2,475
Credit Card Fees	4,300	4,300	4,357	(57)
Total City Court	28,010	28,010	24,782	3,228
Public Works				
Maintenance Salaries	\$ 48,000	\$ 48,000	\$ 56,777	\$ (8,777)
Equipment Expense	4,000	4,000	9,907	(5,907)
Vehicle Fuel	6,500	6,500	4,259	2,241
Other Expenses	2,000	2,000	5,097	(3,097)
Total Public Works	60,500	60,500	76,040	(15,540)
Recreation				
Utilities	1,000	1,000	1,579	(579)
Other Expenses	500	500	42	458
Total Recreation	1,500	1,500	1,621	(121)
TOTAL EXPENDITURES	\$ 369,100	\$ 369,100	\$ 338,588	\$ 30,512

The accompanying notes to financial statements are an integral part of this statement.

CITY OF NEW MARKET, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES, & CHANGES IN FUND BALANCE
- BUDGET & ACTUAL -
GENERAL FUND
For the Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with Final Budget - Positive
	Original	Final		
Excess (Deficiency) of Revenue Over (Under)				
Expenditures	\$ -	\$ -	\$ 13,394	\$ 13,394
FUND BALANCE - BEGINNING	(65,763)	(65,763)	(65,763)	-
FUND BALANCE - ENDING	<u>\$ (65,763)</u>	<u>\$ (65,763)</u>	<u>\$ (52,369)</u>	<u>\$ 13,394</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF NEW MARKET, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES & CHANGES IN FUND BALANCE
-BUDGET & ACTUAL-
STATE STREET AID FUND
For the Year Ended June 30, 2016

	<u>Budgeted Amounts</u>			Variance with Final Budget- Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUE				
State Gas Tax	\$ 35,000	\$ 35,000	\$ 36,677	\$ 1,677
Total Revenue	\$ 35,000	\$ 35,000	\$ 36,677	\$ 1,677
EXPENDITURES				
State Street Aid				
Street Lighting	\$ 4,000	\$ 4,000	\$ 5,658	\$ (1,658)
Telephone/Telecommunications	1,600	1,600	1,052	548
Vehicle Repair and Maintenance	14,800	14,800	3,271	11,529
Vehicle Fuel	7,100	7,100	3,709	3,391
Uniforms	2,500	2,500	0	2,500
Contract Work	1,000	1,000	0	1,000
Street Repair and Maintenance	4,000	4,000	328	3,672
Total State Street Aid	\$ 35,000	\$ 35,000	\$ 14,018	\$ 20,982
Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 22,659	\$ (19,305)
Other Financing Sources (Uses)				
Operating Transfer from General Fund	\$ -	\$ -	\$ -	\$ -
Net Change in Fund Balance	-	-	22,659	(19,305)
Fund Balance, July 1, 2015	190,673	190,673	190,673	-
Fund Balance, June 30, 2016	\$ 190,673	\$ 190,673	\$ 213,332	\$ (19,305)

The accompanying notes to financial statements are an integral part of this statement.

CITY OF NEW MARKET, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES & CHANGES IN FUND BALANCE
-BUDGET & ACTUAL-
DRUG FUND
For the Year Ended June 30, 2016

	<u>Budgeted Amounts</u>			<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUE				
Drug Fund	\$ -	\$ -	\$ 6,045	\$ 6,045
Total Revenue	\$ -	\$ -	\$ 6,045	\$ 6,045
EXPENDITURES				
Drug Fund				
Supplies	\$ -	\$ -	\$ 5,180	\$ 5,180
Total Expenditures	-	-	5,180	5,180
Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 865	\$ 865
Other Financing Sources (Uses)				
Operating Transfer from General Fund	\$ -	\$ -	\$ -	\$ -
Net Change in Fund Balance	-	-	865	865
Fund Balance, July 1, 2015	5,603	5,603	5,603	-
Fund Balance, June 30, 2016	<u>\$ 5,603</u>	<u>\$ 5,603</u>	<u>\$ 6,468</u>	<u>\$ 865</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF NEW MARKET, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General Statement

The City of New Market, Tennessee (the “City”) was incorporated on June 1, 1977 under the laws and provisions of the state of Tennessee. The City operates under a Mayor-Aldermanic form of government. The City provides the following services-Public Safety- Police and Fire, State Street Aid, Sanitation, Public Works, General and Administrative Services, Recreation, and City Court services.

The City’s financial statements are presented in accordance with accounting principles generally accepted in the United States of America (GAAP), as applied to governmental units. The Governmental Accounting Standard Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

The accounting and reporting framework and the more significant accounting policies are discussed in subsequent sections of these notes to the basic financial statements. In determining the financial reporting entity, the City has no component units at June 30, 2016 over which the City exercises significant influence.

B. Basis of Presentation Government-wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and Statement of Activities) report information on the reporting government as a whole. They include all funds of the reporting entity. Governmental activities generally are financed through taxes, intergovernmental revenues and other non-exchange revenues. The statement of activities demonstrates to the degree to which direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Taxes and other items are reported as general revenues. The City does not allocate indirect costs to a specific function or segment.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental/enterprise fund are at least 10 percent of the corresponding total for all fund of that category type.

CITY OF NEW MARKET, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental/enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the City are described as follows:

Governmental Funds

General Fund – The General Fund is the primary operating fund of the City and is classified as a major fund. It is used to account to for all activities except those legally or administratively required to be accounted for in other funds. State Street Aid revenues and expenditures are accounted for in the General Fund but separated to maintain their integrity.

Special Revenue Funds – The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for certain purposes. The special revenue fund is the Drug Fund.

Major & Non-major Funds

The funds are further classified as major or non-major as follows:

Funds Major:

General Fund – See above for description.

Funds Non-major:

Drug Fund – Accounts for revenues and expenditures relating to drug fund operations.

C. Measurement Focus & Basis of Accounting

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the government-wide Statement of Net Position and the Statement of Activities, governmental activities are presented using the economic resources measurement focus and defined below.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on the balance sheet. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balances as their measure of available spendable financial resources at the end of the period.

Basis of Accounting

In the government-wide Statement of Net Position and Statement of Activities, governmental

CITY OF NEW MARKET, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

activities are presented using the accrual basis of accounting. As a result, revenues are recognized when earned and expenses are recorded when the liabilities are incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within 60 days after year end.

Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

Cash & Cash Equivalents

For the purpose of the Statement of Net Position, "cash & cash equivalents" includes all demand and savings accounts of the City. The City has one certificate of deposit.

Interfund Receivables & Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between the funds. Those related to goods and services type are classified as "due to and due from other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Position.

Receivables

In the government-wide financial statements, receivables consist of all revenues earned and not yet received. Allowance for uncollectible accounts is based upon historical trends and the periodic ageing of accounts receivable. Major receivable balances for the governmental activities include state shared taxes, intergovernmental revenues and fines.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as state shared taxes and intergovernmental revenues since they are both usually measurable and available. Nonexchange transactions collectible, but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government wide financial statements in accordance with the accrual basis.

Capital Assets

Capital assets are reported in the government activities column of the government-wide statement of net position. The assets are not reported in the fund financial statements. The City capitalizes assets with a cost of \$500 or more. The assets are recorded at cost except for donated assets which are valued at their estimated fair market value as of the date the asset is received. Major repairs that extend an asset's life are also capitalized. Land is considered a nondepreciable asset

CITY OF NEW MARKET, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

along with land improvements. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Useful Lives</u>
Buildings and Improvements	30 years
Machinery and Equipment	10 years
Vehicles	10 years

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

Restricted Assets

Restricted assets include cash in banks and receivables which are restricted because their use is limited by laws, grant agreements, or debt service requirements.

Compensated Absences

The City's policies regarding vacation time permit employees to accumulate earned but unused vacation leave. The liability for these compensated absences is recorded as a long-term debt in the government-wide financial statements while the current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while the proprietary funds report the liability as it is incurred. The City provides sick leave that accrues at one-half day per month for full-time employees only. Two weeks of annual leave may be earned by employees depending on their years of service; however, this leave is forfeited if not taken by year end.

Net Position and Fund Balance

In the government-wide financial statements, equity is classified as net position and displayed in three components:

- 1) Net Investment in Capital Assets – Consists of capital assets including restricted capital assets (net of accumulated depreciation) and reduced by the outstanding borrowings attributable to the acquisition, construction or improvement of those assets.
- 2) Restricted Net Position – Consists of net position with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or 2) law through constitutional provisions or enabling legislation. The City's policy is generally to use restricted net position first, as appropriate opportunities arise.
- 3) Unrestricted Net Position – All other net positions that do not meet the definition of "restricted" or "net investment in capital assets."

CITY OF NEW MARKET, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

Governmental fund equity is classified as fund balance. Fund balances are classified into the following categories:

- Nonspendable fund balances comprise those amounts that are legally or contractually required to remain intact.
- Restricted fund balances comprise those amounts constrained to be used for a specific purpose by external parties, constitution provisions, or enabling legislation.
- Committed fund balances comprise those amounts constrained by the government itself using its highest level of authority.
- Assigned fund balances are amounts intended to be used for a specific purpose by the governing body through action other than the highest level of authority.
- Unassigned fund balances are any amounts other than those described above and are available for any purpose.

Net Position and Fund Balance Flow Assumptions

When outlays for a particular purpose are funded from both restricted and unrestricted resources, a flow assumption must be made about the order in which the resources are considered to be applied. This City's policy is that when both restricted and unrestricted resources are available for expenditure, restricted resources should be spent first unless legal requirements disallow it. When outlays are incurred for purposes for which amounts in any unrestricted fund balance classification could be used, committed funds are to be spent first, assigned funds second, and unassigned funds last.

The City's highest level of decision-making authority is the Board of Mayor and Alderman. This board may establish, modify, or rescind committed or assigned fund balances by majority vote. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it is the City's policy to use unassigned resources first, then assigned and committed resources as needed. When both restricted and unrestricted fund balances are available for use, it is the City's policy to use restricted fund balance first, then use unrestricted fund balance as stated above.

E. Revenues, Expenditures, & Expenses

Taxes/Other Revenue

Those revenues susceptible to accrual are state shared sales tax, beer taxes, gas taxes, and income taxes. Permits, fines, penalties and other revenues are not susceptible to accrual because they are not generally measurable until received in cash.

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for governmental activities. In the fund financial statements, expenditures are classified by function and further classified as to current, debt service and capital outlay.

CITY OF NEW MARKET, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

Interfund Transfers

Short-term amounts owed between funds are classified as "Due to/from other funds". Interfund loans are classified as "Interfund notes receivable/payable" and are offset by a fund balance reserve account. Repayments from funds that initially paid for them are not presented in the financial statements. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers.

F. Use of Estimates

In preparing the City's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 – STEWARDSHIP, COMPLIANCE, & ACCOUNTABILITY

A. Fund Accounting Requirements

The City complies with regulations requiring the use of separate funds. The legally required funds used by the City include the following:

- General Fund
- Drug Fund

The City accounts for its State Street Aid revenues and expenses in the general fund while still maintaining its integrity of the resources as allowed under Tennessee Code Annotated.

B. Budgetary Information

The City adopts annual budgets consistent with generally accepted accounting principles for all funds. The Board of Mayor and Aldermen approve any amendments to these funds and all annual appropriations for these funds lapse at year end.

C. Deposits & Investment Laws & Regulations

The City has no formal deposit and investment policies; however, the City is required to follow certain state statutes with respect to authorized investment and deposit procedures. See Note 3 with respect to these general requirements.

NOTE 3 – CASH & CASH EQUIVALENTS

The City of New Market has no formal policies with respect to deposits and investments; however, the City is required to follow procedures regarding deposits and authorized investments which are allowed by applicable state laws. For the City of New Market, TCA Code Section 6-56-106 prescribes the authorized investments for municipalities in the State of Tennessee. With respect to deposits, the State of Tennessee requires that all deposits in financial institutions be collateralized by securities whose market value is equal to 105% of the value of the uninsured deposits. The financial institution deposits must be covered by federal depository insurance or the Tennessee Collateral Bank Pool, by collateral held by the City's

CITY OF NEW MARKET, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

agent in the City's name, or by the Federal Reserve Banks acting as third party agents. As of June 30, 2016, the carrying amount of the City's deposits was \$112,018 and the respective bank balances totaled \$115,945. The difference between the two amounts represented deposits in transit, outstanding checks, or other reconcilable items. As of June 30, 2016, the total bank balances of \$115,945 were covered by either F.D.I.C. insurance or by collateral pledged as part of the financial institutions participation in the Tennessee Collateral Bank Pool.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of bank failure, the City would not be able to recover deposits or collateral securities that are in the possession of an outside party. As previously noted, all deposits were either covered by F.D.I.C. Insurance, collateral pledged as part of the financial institutions participation in the Tennessee Collateral Pool or with collateralized securities held by the City's agent in the City's name, or by the Federal Reserve Banks acting as third party agents.

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 69,474	\$ -	\$ -	\$ 69,474
Total Capital Assets Not Being Depreciated	69,474	-	-	69,474
Capital Assets Being Depreciated:				
Buildings and Improvements	190,730	-	-	190,730
Machinery and Equipment	273,201	-	-	273,201
Vehicles	213,551	-	-	213,551
Total Capital Assets Being Depreciated	677,482	-	-	677,482
Less: Accumulated Depreciation for:				
Buildings and Improvements	(71,504)	(7,890)	-	(79,394)
Machinery and Equipment	(189,536)	(13,165)	-	(202,702)
Vehicles	(161,246)	(14,015)	-	(175,261)
Total Accumulated Depreciation	(422,286)	(35,070)	-	(457,357)
Total Capital Assets Being Depreciated (net)	255,196	(35,070)	-	220,125
Governmental Activities Capital Assets (net)	\$ 324,670	\$ (35,070)	\$ -	\$ 289,599

CITY OF NEW MARKET, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 5 – RISK ASSESSMENT

The City purchases commercial insurance to cover risks of loss related to torts, theft of, damage to, and destruction of assets; natural disasters; errors and omissions; injuries to employees; and the employees' health plan. For the current year, there have been no significant reductions in insurance coverage. Liabilities or settlements in excess of insurance coverage are reported when it is probable that a loss has been incurred and the amount of loss can be reasonably estimated. With regards to risk management, there were no settlement amounts which exceeded insurance coverage for the current year or the three prior years.

NOTE 6 – PAYROLL TAXES

The City has a liability for payroll taxes that were not paid and date back to 2010. The current amount owed is \$213,976. The IRS has agreed that the City can pay \$1,000 per month until all taxes, penalties and interest have been paid. The agreement began in August 2014 and the City made required payments during the fiscal year.

	Beginning Balance	Penalty/Interest Additions	Reductions	Ending Balance
Governmental Funds				
Payroll liability	\$ 216,585	\$ 7,391	\$ 10,000	\$ 213,976
Governmental funds				
Long-term liability	\$ 216,585	\$ 7,391	\$ 10,000	\$ 213,976

NOTE 7 – SUBSEQUENT EVENTS

In preparing these financial statements, the City has evaluated events and transactions for potential recognition or disclosure through May 10, 2018, the date the financial statements were available to be issued.

CITY OF NEW MARKET, TENNESSEE
SCHEDULE OF INSURANCE IN FORCE
June 30, 2016

General liability	\$1,000,000 each occurrence \$100,000 damage to property \$10,000 medical expense \$1,000,000 personal injury
Workers Compensation	Statutory
Business Automobile	\$1,000,000 bodily injury & property damage
Public Officials Liability	\$1,000,000 errors or omissions

DAVID M. ELLIS

Certified Public Accountant

*Member, American Institute of
Certified Public Accountants*

*Member, Tennessee Society of
Certified Public Accountants*

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Honorable Mayor and Aldermen
City of New Market
New Market, Tennessee

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major of City of New Market, Tennessee, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise City of New Market, Tennessee's basic financial statements and have issued my report thereon dated May 10, 2018.

Internal Control over Financial Reporting

In planning and performing my audit of the financial statements, I considered the City of New Market, Tennessee's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of New Market, Tennessee's internal control. Accordingly, I do not express an opinion on the effectiveness of the City of New Market, Tennessee's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

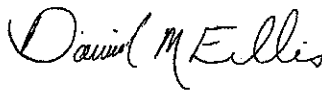
My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. I did identify a certain deficiency in internal control, described in the accompanying schedule of findings and recommendations that I consider to be a material weakness. 2016-009.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of New Market, Tennessee's financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed several instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. 2016-001, 2016-002, 2016-003, 2016-004, 2016-005, 2016-006, 2016-007, 2016-008 and 2016-010.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



David M. Ellis, CPA
Greeneville, Tennessee
May 10, 2018

CITY OF NEW MARKET, TENNESSEE
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
June 30, 2016

Financial Statement Findings

Current Year Findings:

2016-001 Three Day Deposit Rule

Condition: Funds are received and held until a large deposit is accumulated before remitting to the bank.

Criteria: The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 5, Chapter 11, Section 1, states:

“Municipal officials should ensure that collections are deposited daily, if possible, but no more than three business days after the initial collection, as required by state law.”

Effect: Timely deposit of funds received helps safeguard assets and ensures controls are in place.

Recommendations: Management should create procedures to ensure funds are deposited within three days of receipt.

Response and Corrective Action Plan: Management agrees with the finding however they offer the following explanation. Many times the city has small amounts of money on hand and they choose to not make a deposit until additional money is received. This will possibly continue to be a finding depending on the amounts of money received on a particular day. The Recorder is the contact related to this information.

2016-002 Bank Account Reconciliations

Condition: As part of examining bank account reconciliations prepared by the Town’s staff, it was discovered that the June 30, 2016, reconciled balance did not agree with the general ledger for any bank account. The difference included multiple unrecorded transactions.

Criteria: The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 5 Chapter 2 Section 2states:

“Municipal officials should ensure that a management level employee periodically reviews: bank statements and the related reconciliations to determine that they are accurate and all activity is authorized and properly recorded.”

Effect: Bank accounts that are not reconciled accurately are more susceptible to errors and irregularities that are not discovered in the normal courses of business.

CITY OF NEW MARKET, TENNESSEE
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
June 30, 2016

Recommendation: Management should accurately reconcile each month to the balance in the general ledger subsequent to completion of the City's operations for that month. Any differences should be thoroughly investigated, resolved, and documented. Proper and timely bank reconciliations will minimize the possibility of mistakes caused by either the bank or the City from being overlooked.

Managements Comments: Management concurs. The QuickBooks reconciliation feature will be implemented to perform bank reconciliations on a monthly basis.

Response and Corrective Action Plan: Management agrees with the finding and the QuickBooks reconciliation feature will be implemented to perform bank reconciliations on a monthly basis. The Recorder is the contact related to this information.

2016-003 Invoice Cancellation:

Condition: Invoices are paid without the account to be charged indicated on them.

Criteria: The Internal Control and Compliance Manual for Tennessee Municipalities Title 5 Chapter 19 Section 3 states:

"that personnel cancel each page of supporting documentation, including purchase authorizations/orders before the checks and documentation are submitted for approval and signing. Supporting documents should be canceled by writing the check number, amount, payment date, and account to be charged on the first page of documentation and stamping "PAID" on all other pages."

Cause: City policy had not previously dictated that this procedure be followed.

Effect: Invoices could be paid more than once or charged to the wrong account.

Recommendation: The city should cancel invoices based on the requirements in the Internal Control and Compliance Manual for Tennessee Municipalities.

Response and Corrective Action Plan: Management agrees with the finding and will implement procedures to mark invoices as they are paid. The Recorder is the contact related to this information.

2016-004 Capital Asset Records Not Properly Maintained

Condition: Fixed assets are not properly recorded and depreciated when purchased and no annual review is performed.

Criteria: The Internal Control and Compliance Manual for Tennessee Municipalities Title 5 Chapter 24 Section 1 states:

CITY OF NEW MARKET, TENNESSEE.
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
June 30, 2016

“Municipal officials should require that all capital assets be identified (tagged or marked), and recorded immediately following the purchase of such items. Vehicles and equipment (backhoes, mowers, etc.) should have the municipality’s name or seal clearly displayed. The asset record should be retained at the municipality and should include up-to-date purchase and disposal information. An annual physical inventory should be performed, documented, and reconciled to the property records. Capital assets acquired with grant funds should be adequately identified.”

Cause: No procedures have been implemented to ensure proper recording and upkeep of capital assets as they are purchased or disposed of.

Effect: Depreciation is not being recorded and fixed assets could be misappropriated if not regularly reviewed and accounted for.

Response and Corrective Action Plan: Management agrees with the finding and will maintain adequate capital asset records and updates in the future. The Recorder is the contact related to this information.

2016-005 Preparation of Financial Statements and Related Note Disclosures

Condition: As part of the audit, the auditors prepared the financial statements, related notes, and supplementary information from information provided by the City’s personnel.

Criteria: Under current professional standards, the City is responsible for the internal control process which includes the preparation of fiscal year-end financial statements in accordance with accounting principles generally accepted in the United States of America. The financial statement preparation process should be performed in a manner such that there is only a remote likelihood that a misstatement of the City’s financial statements, that is more than inconsequential, will not be prevented or detected.

Effect: Personnel of the City are not currently preparing GAAP financial statements for audit or for review by their Mayor and aldermen. This disallows them from getting complete and accurate financial information on a timely basis.

Recommendation: Monthly and annual financial statements should be reviewed by the mayor and aldermen so they are fully informed about the finances of the City.

Response and Corrective Action Plan: Management agrees with the finding however they offer the following explanation. Due to the size of the city, it is not feasible to have trained staff prepare financial statements and note disclosures. This will probably continue to be a finding. The Recorder is the contact related to this information.

CITY OF NEW MARKET, TENNESSEE
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
June 30, 2016

2016-006 Incomplete and Unsigned Board of Director's Meeting Minutes

Condition: Minutes taken at board meetings are not signed and often not read at subsequent meeting.

Criteria: The Internal Control and Compliance Manual for Tennessee Municipalities Title 4 Chapter 2 Section 4 states:

“Municipal officials should ensure that complete minutes of actions taken by the governing body are maintained at the municipal office. The official minutes should be signed and kept together in date order and be easily accessible.”

Cause: Due to the small size of the City and the tendency for informality, proper procedures are not followed to sign the official meeting minutes and read at next scheduled meeting.

Effect: Complete minutes of actions taken by the board are not being properly documented and approved.

Recommendation: Meeting minutes should be signed showing approval by the secretary and include all discussions that occurred and these minutes should be read at the subsequent meeting to verify accuracy.

Response and Corrective Action Plan: Management agrees with the finding and will implement procedures to formalize meeting minutes. The Recorder is the contact related to this information.

2016-007 Utilization of Accounting Software

Condition: The accounting software is not being utilized properly on a daily basis to facilitate reconciliations between accounts receivable and payable control accounts and subsidiary ledgers.

Criteria: The City's personnel should completely and accurately reconcile all accounts receivable and accounts payable control accounts and subsidiary ledgers on a monthly basis.

Effect: General ledger accounts that are not reconciled accurately are more susceptible to errors and irregularities that are not discovered in the normal course of business.

Recommendation: Management should accurately reconcile accounts receivable and accounts payable each month to the balance in the general ledger subsequent to completion of the City's operations for that month. Any differences should be thoroughly investigated, resolved, and documented. Proper and timely reconciliations will minimize the possibility of mistakes in financial reporting. The functions built into QuickBooks software are excellent tools to accomplish this.

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Response and Corrective Action Plan: Management agrees with the finding and will complete the implementation of the receivables and payables software functions to the general ledger. The Recorder is the contact related to this information.

2016-008 Audit Adjustments Were Required for Proper Financial Statement Presentation

Condition: At June 30, 2016, certain general ledger accounts were materially incorrect, and significant audit adjustments were required for the financial statements to be free of misstatements at year-end.

Criteria: To generate a financial statement that is presented in accordance with generally accepted accounting principles, the City must have adequate internal controls over the maintenance of its accounting records.

Effect: The Town's financial reporting system did not prevent, detect, or correct potential misstatements in the accounting records.

Recommendation: The City should have appropriate processes in place to ensure that its general ledger and financial statements generated are accurate.

Managements Comments: Management concurs. Controls will be implemented to avoid significant errors in the underlying accounting records.

Response and Corrective Action Plan: Management agrees with the finding and controls will be implemented to avoid significant errors in the underlying accounting records. The Recorder is the contact related to this information.

2016-009 Lack of Separation of Duties

Condition: One employee receives collections, records collections, prepares deposits, and reconciles the bank statement.

Criteria: The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 2, Chapter 1, Section 4, states:

“Municipal officials should enforce division of duties to provide a system of checks and balances so that no one person has control over a complete transaction from beginning to end. Workflow should be established so that one employee's work is automatically verified by another employee working independently...”

Effect: The result of one employee handling an entire accounting transaction is the danger that intentional or unintentional errors could be made and not be detected.

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Recommendation: To the extent possible, segregate the duties of preparing the bank deposit separate from the duty of collecting receipts and reconciling monthly bank statements.

Management's Comments: This will be an ongoing problem since the City only has one office employee. Management will continue to monitor and discuss ways that the Mayor and Aldermen could be involved in this process.

Response and Corrective Action Plan: Management agrees with the finding but this will be an ongoing problem since the City only has one office employee. Management will continue to monitor and discuss ways that the Mayor and Aldermen could be involved in this process. The Recorder is the contact related to this information.

2016-010 State Street Aid Funds

Condition: For the year ending June 30, 2016, the State Street Aid fund balance is \$190,673. There is not enough cash in the bank to cover this.

Criteria: State Street Aid Funds are to be used strictly for certain expenses that are set forth in state guidelines. Monies for State Street Aid should be retained by the City until they are spent on appropriate items.

Cause: The Town has been using State Street Aid money to cover general operating expenses.

Recommendation: The Town should put a plan in place on how to accumulate funds to cover the State Street Aid balance.

Response and Corrective Action Plan: Management agrees with the finding and will begin to replace the funds used from the State Street Aid Fund. The Recorder is the contact related to this information.

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For the Fiscal Year Ended June 30, 2016

Financial Statement Findings

Finding Number	Finding Title	Status
2016-001	Three Day Deposit Rule (original finding 2014-001)	Still applies
2016-002	Bank Account Reconciliations (original finding 2014-002)	Still applies
2016-003	Invoice Cancellation (original finding 2014-003)	Still applies
2016-004	Capital Asset Records Not Properly Maintained (original finding 2014-004)	Still applies
2016-005	Preparation of Financial Statements and Related Note Disclosures (original finding 2014-005)	Still applies
2016-006	Incomplete and Unsigned Board of Director's Meeting Minutes (original finding 2014-006)	Still applies
2016-007	Utilization of Accounting Software (original finding 2014-007)	Still applies
2016-008	Audit Adjustments Were Required for Proper Financial Statement Presentation (original finding 2014-008)	Still applies
2016-009	Lack of Separation of Duties (original finding 2014-009)	Still applies
2016-010	State Street Aid Funds (original finding 2014-010)	Still applies